

SUMMARY ANALYSIS OF AMENDED BILL

Author: Migden Analyst: Colin Stevens Bill Number: AB 511

Related Bills: See prior analyses Telephone: 845-3036 Amended Date: 3-5-98

Attorney: Doug Bramhall

Sponsor:

SUBJECT: Bank Tax Rate Excess Over General Tax/Local Agency Financial Aid Fund/In-Lieu Provision

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

☒ FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED JANUARY 28, 1998, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under Bank and Corporation Tax Law (B&CTL), this bill would make the following changes to the in-lieu tax for banks and financial corporations:

- require that a percentage of the revenues from the in-lieu tax be deposited into the Financial Aid to Local Agencies Fund (the Fund), which would be created by the bill, for disbursement to all cities and counties (municipalities) based on a specified formula;
- require that banks and financial corporations in each city semiannually report to the Franchise Tax Board (FTB) any information necessary to determine the distribution of funds to municipalities;
- require the FTB to notify the Controller of the amount of collected taxes attributable to the bank tax; and
- specify that the tax would not be in-lieu of nondiscriminatory parcel taxes.

SUMMARY OF AMENDMENT

The March 5, 1998, amendments:

- ◆ Specify that for the 1998-99 fiscal year only, 50% of in-lieu revenues would be transferred to the Financial Aid to Local Agencies Fund (the Fund) and that for each year thereafter, 100% would be transferred; and

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
___ X ___ PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department/Legislative Director Date
Johnnie Lou Rosas 3/13/98

Agency Secretary Date

By: Date:

- ◆ Provide a formula for distribution to cities, counties and cities and unincorporated area of each county (municipalities), which is allocated as follows:
- 50% to cities, cities and counties and unincorporated areas of counties based on the proportion of payroll in the municipality bears to the total payroll of all banks and financials in the state;
- 25% to cities and cities and counties based on the proportion of population that each city or city and county bears to the total population of all residents in all cities and cities and counties; and
- 25% to each county and city and county based on the proportion of population in the unincorporated area that each county or city and county bears to the total population of all residents in all counties and cities and counties. Each county's share of population is the population of the unincorporated area of the county.

SPECIFIC FINDINGS

With the exception of the change in the formula for determining the distribution of funds to municipalities and a revised revenue estimate due to a change in the percentage of in-lieu revenue going to municipalities, the specific findings of the department's prior analyses of this bill still apply.

Implementation Considerations

This bill raises a number of implementation concerns regarding reporting requirements, which include:

- the source of data the FTB would use to determine the population of municipalities for purposes of determining the appropriate distributions;
- banks and financial corporations would be required to report any necessary information, but the method of transmission is not specified, nor is it clear whether the FTB could specify the medium of transmission. Transmission by a means other than electronic data interchange or magnetic media would add to the department's cost to administer the bill.
- FTB would be required to determine the payroll that each municipality's banks and financial corporations bears to the total payroll of all California banks and financial corporations, but would provide no means to compel accurate reporting by banks and financial corporations. If the FTB is expected to provide for accurate distributions to municipalities, the bill should provide for a penalty in the event banks and financial corporations fail to provide needed information.

Technical Considerations

Section 19604 provides that amounts determined according to Section 19606 would not be deposited in the Bank and Corporation Tax Fund (B&C Fund). However, Section 19606, which provides that the Controller would transfer the money identified (50% of the in-lieu rate in 1998-99 and 100% thereafter) by the FTB from the B&C Fund to the Fund, implies that the in-lieu tax would be placed in the B&C Fund prior to transfer to the Fund. Amendments 1 and 2 would make consistent that the amounts determined under Section 19606 would be deposited in the B&C Fund and transferred to the Fund for distribution to cities.

FISCAL IMPACT

Tax Revenue Estimate

Revenue losses to the General Fund under the Bank & Corporation Tax Law are estimated to be:

Effective With Fiscal Years Beginning 1998-9 (In Millions)		
1998-9	1999-0	2000-1
(\$80)	(\$172)	(\$178)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

Revenue losses to the General Fund under the Bank & Corporation Tax Law would depend on the amount of profits reported by banks and other corporations subject to the in-lieu tax rate.

The above estimate was based on the actual revenue collected from the in-lieu rate for the 1995 tax year (\$140 million) and projected to 1998-9 using the Department of Finance (December 1997) projected growth in corporate revenues. These moneys would be collected by the Franchise Tax Board and transferred to the State Controller for deposit in the Financial Aid to Local Agencies Fund, which this bill would create.

BOARD POSITION

Pending.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 511
As Amended March 5, 1998

AMENDMENT 1

On page 2, line 4-5, strike "and amounts determined pursuant to
Section 19606,"

AMENDMENT 2

On page 3, line 3, after "part" insert:

, be transferred into the Financial Aid to Local Agencies Fund pursuant to
Section 19606,